Chapter I

Finances of the State Government

This chapter provides a broad perspective of the finances of the State Government of Haryana during 2008-09 and analyses the changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in ***Appendix 1.1 Part A*** and the layout of the Finance Accounts is depicted in ***Appendix 1.1 Part B.*** The methodology adopted for assessment of the fiscal position is given in ***Appendix 1.2***.

1.1 Summary of current year's Fiscal Transactions

A summary of the State Government's fiscal transactions during 2008-09 vis-à-vis the previous year is presented in **Table 1.1.** ***Appendix 1.4*** provides details of receipts and disbursements as well as the overall fiscal position during 2008-09.

Table 1.1: Summary of current year's fiscal transactions

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
					Non-plan	Plan	Total
Section – A : Revenue							
19,750.74	**Revenue Receipts**	**18,452.31**	**17,526.87**	**Revenue Expenditure**	**16,616.82**	**3,917.91**	**20,534.73**
11,617.82	Tax revenue	11,655.28	5,229.68	General Services	5,970.31	54.16	6,024.47
5,097.08	Non-tax revenue	3,238.45	5,738.67	Social Services	4,596.54	2,662.19	7,258.73
1,634.36	Share of Union Taxes/Duties	1,724.62	6,221.88	Economic Services	5,834.19	1,201.56	7,035.75
1,401.48	Grants from Government of India	1,833.96	336.64	Grants-in-aid and Contributions	215.78		215.78
Section – B : Capital							
10.15	**Miscellaneous Capital Receipts**	**6.80**	**3,426.17**	**Capital Outlay**	**511.81**	**3,989.86**	**4,501.67**
213.80	**Recoveries of Loans and Advances**	**351.80**	**285.50**	**Loans And Advances Disbursed**	**311.87**	**20.44**	**332.31**
843.50	**Public Debt Receipts***	**3,888.06**	**840.92**	**Repayment of Public Debt***	**1,291.84**		**1,291.84**
-	**Contingency Fund**	-	-	**Contingency Fund**	-	-	-
9,432.73	**Public Account Receipts**	**12,308.28**	**8,818.08**	**Public Account Disbursements**	**11,441.82**		**11,441.82**
7,146.68	**Opening Cash Balance**	**6,500.06**	**6,500.06**	**Closing Cash Balance**	**3,404.94**		**3,404.94**
37,397.60	**Total**	**41,507.31**	**37,397.60**	**Total**	**33,579.10**	**7,928.21**	**41,507.31**

***	Excluding net transactions under Ways and Means advances and overdrafts.**

(Source: State Finance Account.)

The following are the major changes in fiscal transactions during 2008-09 over the previous year:

- Revenue receipts decreased by Rs 1,299 crore (seven *per cent*) due to decrease in non-tax revenue (Rs 1,859 crore) by 36 *per cent*. Tax revenue, share of Union taxes and duties and grants from the Government of India

(GOI) increased by Rs 37 crore (0.32 *per cent*), Rs 91 crore (six *per cent*) and Rs 432 crore (31 *per cent*) respectively. The State Government received a debt credit of Rs 96.67 crore under Debt Consolidation and Relief Facility (DCRF) from Government of India. The States' own tax revenue (Rs 11,655 crore) fell short by nine *per cent* of the target fixed by the Twelfth Finance Commission (TFC) (Rs 12,864 crore) and 18 *per cent* of the State Government in its Medium Term Fiscal Policy Statement (MTFPS) (Rs 14,294 crore) and four *per cent* of Fiscal Correction Path (FCP) (Rs 12,200 crore). The States' own non–tax revenue (Rs 3,268 crore) was higher by 58 *per cent* than the target fixed by TFC (Rs 2,066 crore) and by 50 *per cent* the State Government in FCP (Rs 2,185 crore) but lower by 19 *per cent* than that fixed in MTFPS (Rs 4,044 crore) for the year 2008-09.

- Revenue expenditure increased by Rs 3,007 crore (17 *per cent*), mainly due to increase in expenditure on Social Services (Rs 1,520 crore), Economic Services (Rs 813 crore) and General Services (Rs 794 crore). The Non-Plan Revenue expenditure (NPRE) which was Rs 16,616 crore in 2008-09 was higher by 59 *per cent* than the normative assessment of TFC (Rs 10,445 crore), 15 *per cent* of the projection of the State Government made in FCP Rs (14,400 crore) and 3 *per cent* of the projection of MTFPS (Rs 16,144 crore).

- There was an increase of Rs 1,076 crore (31 *per cent*) in capital expenditure mainly on Economic Services (Rs 865 crore), especially on Agriculture and Allied Activities (Rs 515 crore) and Transport (Rs 397 crore).

- Recovery of loans and advances increased by Rs 138 crore (64 *per cent*) during 2008-09. The increase was mainly due to increase in recovery of loans and advances in the power sector (Rs 92.81 crore).

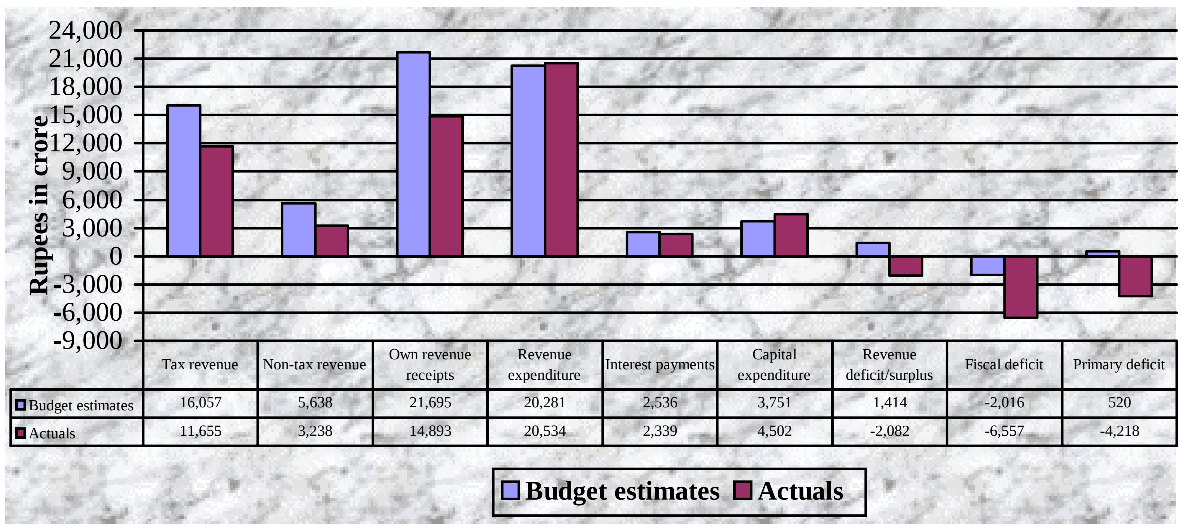
- Public debt receipts increased by Rs 3,044 crore (361 *per cent*) in 2008-09 over the previous year mainly due to increase in internal debt receipts by Rs 3,046 crore. The repayment of public debt also increased by Rs 451 crore (54 *per cent*). Thus, there was a net increase of Rs 2,593 crore in public debt receipts during 2008-09.

- Public Account receipts increased from Rs. 9,433 crore in 2007-08 to Rs. 12,308 crore in 2008-09 and their disbursements also increased from Rs. 8,818 crore in 2007-08 to Rs 11,422 crore in 2008-09.

- The cash balance of the State at the close of 2008-09 decreased by Rs 3,095 crore over the previous year due to payment of arrears of pay and allowances as a result of implementation of the Sixth Pay Commission's report in the State. Out of the total cash balance of Rs 3,405 crore at the end of the current year, the Government invested Rs 2,842 crore in securities of GOI and interest of Rs 303 crore was earned on such investments during 2008-09.

Actual realisation of revenue and its disbursement depends on a variety of factors, some internal and some external. **Chart 1.1** represents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1: Budget estimates vis-à-vis actuals for selected fiscal parameters



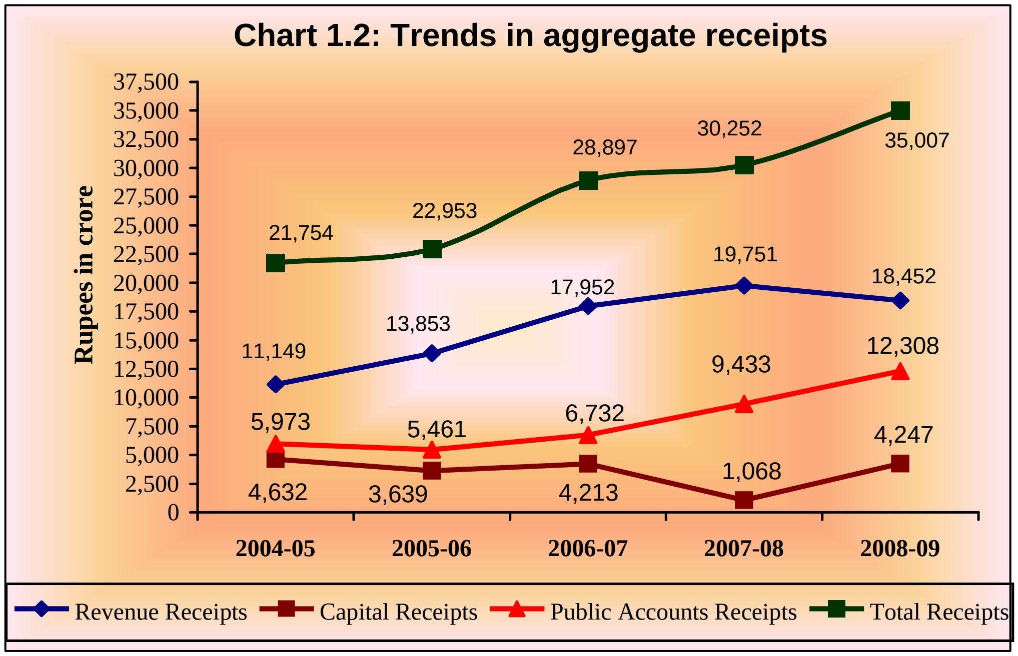
	Tax revenue	Non-tax revenue	Own revenue receipts	Revenue expenditure	Interest payments	Capital expenditure	Revenue deficit/surplus	Fiscal deficit	Primary deficit
Budget estimates	16,057	5,638	21,695	20,281	2,536	3,751	1,414	-2,016	520
Actuals	11,655	3,238	14,893	20,534	2,339	4,502	-2,082	-6,557	-4,218

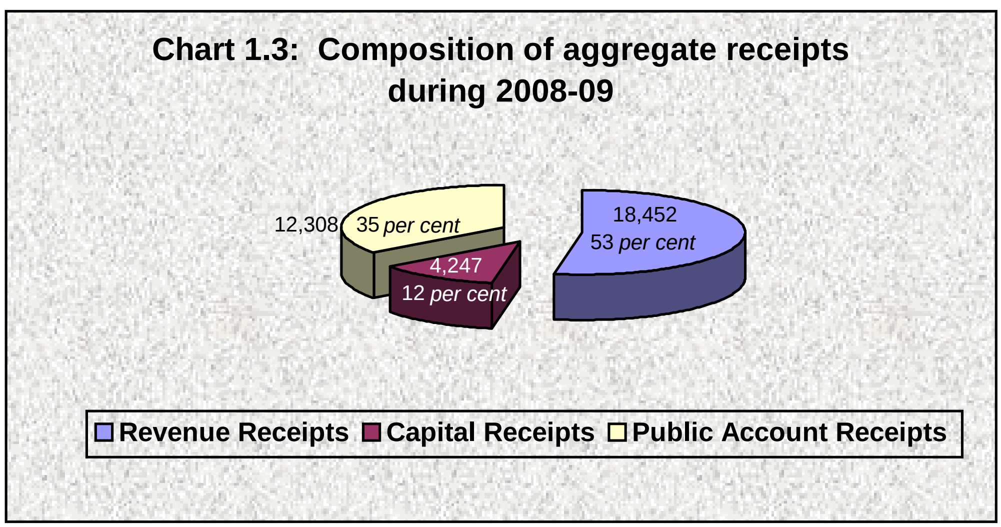
State Government could not enforce fiscal discipline during the year as against the targeted revenue receipts of Rs 21,695 crore, the actual collection of its own revenue was only Rs 14,893 crore (69 *per cent*). The shortfall in collection was mainly under tax revenue and non-tax revenue, where against anticipated receipts of Rs 16,057 crore and Rs 5,638 crore, the actual receipts were only Rs 11,655 crore (73 *per cent*) and Rs 3,238 crore (57 *per cent*) respectively. The actual revenue expenditure (Rs 20,534 crore) exceeded the budget provision (Rs 20,281 crore) by Rs 253 crore. The Government could not maintain the estimated revenue surplus of Rs 1,414 crore as it turned into a revenue deficit of Rs 2,082 crore. Capital expenditure (Rs 4,502 crore) was also not restricted to its estimate (Rs 3,751 crore) and exceeded it by Rs 751 crore i.e. by 20 *per cent.* Although interest payments (Rs 2,339 crore) were kept within the estimated projection (Rs 2,536 crore), the estimated fiscal deficit (Rs 2,016 crore) and the primary surplus (Rs 520 crore) could not be maintained as the fiscal deficit further decreased to Rs 6,557 crore and the primary surplus turned into a deficit of Rs 4,218 crore during the current year.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table 1.1** presents the receipts and disbursements of the State during 2008-09 as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends of various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during 2008-09.





The total receipts of the State Government increased by Rs 13,253 crore (61 *per cent*) from Rs 21,754 crore in 2004-05 to Rs 35,007 crore in 2008-09. Revenue receipts increased by Rs 7,303 crore (66 *per cent*) from Rs 11,149 crore in 2004-05 to Rs 18,452 crore in 2008-09. Capital receipts which included recovery of loans and advances and public debt, decreased by Rs 385 crore (eight *per cent*) from Rs 4,632 crore in 2004-05 to Rs 4,247 crore in 2008-09. Public Account receipts also increased by Rs 6,335 crore (106 *per cent*) from Rs 5,973 crore in 2004-05 to Rs 12,308 crore in 2008-09. The share of revenue receipts in the total receipts marginally increased from 51 *per cent* in 2004-05 to 53 *per cent* in 2008-09. The share of Public Account in total receipts also increased from 27 *per cent* in 2004-05 to 35 *per cent* in 2008-09 whereas the share of capital receipts including debt decreased from 21 *per cent* in 2004-05 to 12 *per cent* in 2008-09.

1.2.2 Funds transferred from GOI directly to State implementing agencies

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in the social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, funds directly transferred to State implementing agencies during 2007-08 and 2008-09 are presented in **Table 1.2.**

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Sr. No.	Programme/Scheme (Indicate Centre Share)	Implementing Agency in the State	Central Share	
			2007-08	2008-09
1.	Members of Parliament Local Area Development Schemes (MPLAD)	District Rural Development Agency (DRDA)	33.54	28.60
2.	National Rural Employment Guarantee Scheme (NREGA)	DRDA	42.67	134.57
3.	Indira Awas Yojana (IAY)	DRDA	24.94	50.33
4.	Swaranjayanti Gram Swarojgar Yojana (SGSY)	DRDA	19.89	23.51
5.	Desert Development Programme (DDP)	DRDA	29.14	10.59
6.	Integrated Wasteland Development Programme (IWDP)	DRDA	4.45	4.28
7.	District Rural Development Agency (DRDA) (Administration)	DRDA	7.71	8.03
8.	Backward Region Grant Fund (BRGF)	DRDA	25.80	11.57
9.	Sampoorna Gramin Rojgar Yojna (SGRY)	DRDA	67.66	0
10.	Sarva Shiksha Abhiyan (SSA)	Education Department	140.00	204.52
11.	National Programme for Education of Girls at Elementary Level (NPEGEL)	Education Department	1.50	0
12.	Kasturba Gandhi Bal Vidhyalya (KGBV)	Education Department	0.70	0.95
13.	National Rural Health Mission (NRHM)	Haryana State Health and Family Welfare Society	151.53	211.59
14.	National Horticulture Mission (NHM)	Horticulture Department	64.76	33.00
15.	Micro Irrigation Scheme (MIS)	Horticulture Department	6.04	12.07
16.	Pradhan Mantri Gram Sarak Yojana (PMGSY)	Public Works Department (Buildings and Roads)	216.21	272.02
17	National Food Security Mission (NFSM)	Agriculture Department	21.15	11.04
18	Scheme for Central share support to state extension programme for extension reforms (ATMA)	Agriculture Department	1.86	5.77
	Total		**859.55**	**1,022.44**

(Source: Information supplied by concerned department.)

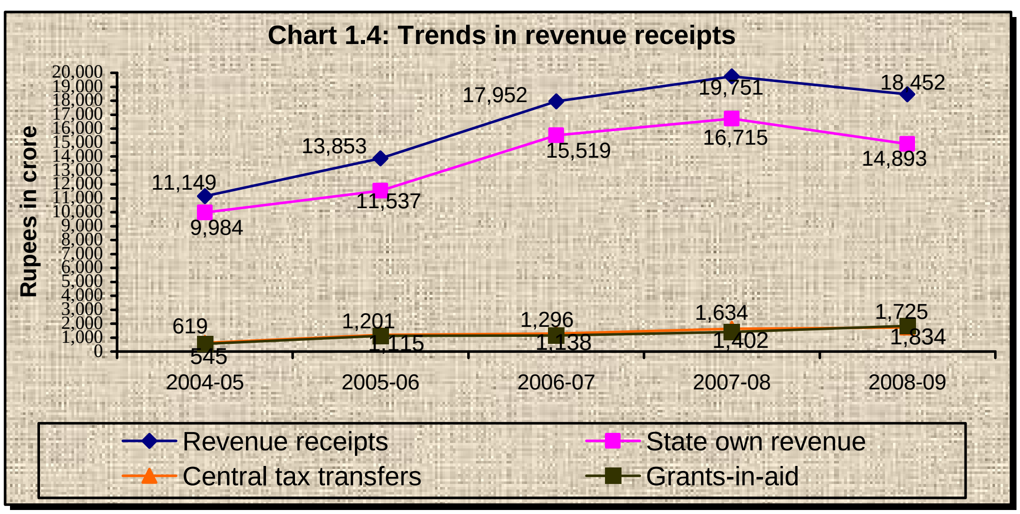
[1] State implementing agencies include any organization/institution including non-governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Shiksha Abhiyan (SSA), State Health Mission under NRHM etc.

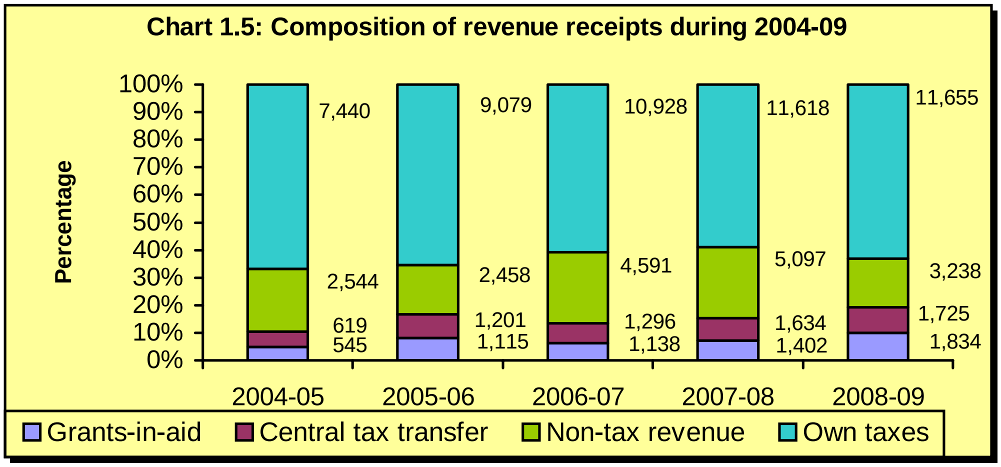
Table 1.2 shows that the funds transferred directly to the State implementing agencies (Central share) increased by 19 *per cent* during 2008-09 (Rs 1,022.44 crore) over 2007-08 (Rs 859.55 crore). The increase was mainly under National Rural Employment Guarantee Scheme: Rs 91.90 crore (215 *per cent*), Scheme for Central share support to state extension programme for extension reforms : Rs 3.91 crore (210 *per cent*) Indira Awas Yojana : Rs 25.39 crore (102 *per cent*), Micro Irrigation Scheme: Rs 6.03 crore (100 *per cent*), Sarva Shiksha Abhiyan : Rs 64.52 crore (46 *per cent*) and National Rural Health Mission: Rs 60.06 crore (40 *per cent*). However, the transfer of funds decreased by Rs 18.55 crore (64 *per cent*) under Desert Development Programme ; Rs 14.23 crore (55 *per cent*) under Backward Region Grant Fund and Rs 31.76 crore (49 *per cent*) under National Horticulture Mission during the same period.

As the funds are not routed through State Government accounts, the direct transfer of funds from the Union Government to the State implementing agencies runs the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation and timely reporting about the status of expenditure by these implementing agencies was not in place.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in ***Appendix 1.3*** and also depicted in **Charts 1.4 and 1.5** respectively.





The Revenue receipts of the State were showing an increasing trend over the period 2004-08 but decreased by 1,299 crore (7 *per cent)* from Rs 19,751 crore in 2007-08 to Rs 18,452 crore in 2008-09. The decrease in revenue receipts was mainly due to decrease of Rs 1,859 crore in non-tax revenue from Rs 5,097 crore in 2007-08 to Rs 3,238 crore in 2008-09. The share of non-tax revenue in revenue receipts also decreased from 26 *per cent* in 2007-08 to 18 *per cent* in 2008-09. Central tax transfers increased by Rs 91 crore, from Rs 1,634 crore in 2007-08 to Rs 1,725 crore during 2008-09 and constituted nine *per cent* of revenue receipts. The increase in Central transfers was mainly under corporation tax (Rs 47 crore), Customs duty (Rs 21 crore) and service tax (Rs 23 crore). The grants-in-aid from Government of India, which constituted 10 *per cent* of revenue receipts in the current year, increased from Rs 1,402 crore in 2007-08 to Rs 1,834 crore. The increase of Rs 432 crore was under Centrally sponsored schemes (Rs 51 crore), Non-Plan grants (Rs 272 crore), Central schemes (Rs 17 crore) and State Plan schemes (Rs 92 crore).

The trends in revenue receipts relative to the Gross State Domestic Product (GSDP) are presented in **Table 1.3**.

Table 1.3: Trends in revenue receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue receipts (RR) (Rupees in crore)	**11,149**	**13,853**	**17,952**	**19,751**	**18,452**
Rate of growth of RR (*per cent*)	13.27	24.25	29.58	10.02	(-)6.58
R R/GSDP (*per cent*)	11.89	12.98	13.81	12.90	10.22
Buoyancy ratios[2]					
Revenue buoyancy with reference to GSDP	1.008	1.760	1.355	0.565	(-)0.368
State's Own Tax Buoyancy with reference to GSDP	1.306	1.599	0.933	0.356	0.018
Revenue buoyancy with reference to State's own taxes	0.772	1.101	1.452	1.588	(-)20.56

(Source: State Finance Accounts)

The growth of revenue receipts during 2004-08, declined to 6.58 *per cent* in the

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

current year. The percentage ratio of revenue receipts to GSDP decreased from 12.90 in 2007-08 to 10.22 in 2008-09. The revenue buoyancy with reference to the GSDP and the State's own taxes became negative from 0.565 and 1.588 in 2007-08 to 0.368 and 20.56 during 2008-09. The State's own tax buoyancy with reference to GSDP decreased from 1.306 in 2004-05 to 0.018 in 2008-09.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2004-05 to 2008-09 along with the respective all-India average are presented in ***Appendix 1.5***.

The tax revenue increased by 0.32 *per cent* during 2008-09 (Rs 11,655 crore) over the previous year (Rs 11,618 crore). The revenue from taxes on sales, trade, etc. comprised major share of tax revenue (70 *per cent*) and the same increased by six *per cent* over the previous year. The value added tax (VAT) introduced in April 2003 had enhanced the buoyancy of the taxes on sales, trade, etc. revenue and generated a higher collection of Rs 434 crore during 2008-09. Receipts under stamps and registration decreased by 25 *per cent* from Rs 1,763 crore in 2007-08 to Rs 1,326 crore in 2008-09 due to the global slowdown of the economy, leading to decrease in transactions of immovable property. Other components of tax revenue exhibited relative stability with insignificant increases and decreases during the year. It is important to note that the State's own tax revenue was less than the assessment made by TFC (Rs 12,864 crore) as well as the projections made by the State Government in its FCP (Rs 12,200 crore) and MTFPS (Rs 14,294 crore).

The expenditure on collection of tax revenue during 2004-09 ranged between 0.66 and 0.81 *per cent* for taxes on sales, trades etc., 2.34 and 4.47 *per cent* for taxes on vehicles, 0.88 and 1.30 *per cent* for State Excise, 0.42 and 1.23 *per cent* for Stamp duty and Registration fees and 0.30 and 0.95 *per cent* for Taxes on Goods and Passenger for tax revenue.

Non-tax revenue, which includes debt relief of Rs 96.66 crore from GOI on repayment of the consolidated loan under DCRF, constituted 18 *per cent* of the total revenue receipts during 2008-09, significant decrease of Rs 1,859 crore (36 *per cent*) over the previous year. The decrease in non-tax revenue was mainly on account of a decrease of Rs 1,921 crore in receipts under the major head 'Urban Development' due to less approval of projects because of global recession. Receipts of Rs 645 crore under Transport during the year were offset by an expenditure of Rs 827 crore under Transport as Haryana does not have a Road Transport Corporation and State-owned buses are operated by the Transport Department of the State. The expenditure incurred on the collection of non-tax revenue was much higher than the expenditure incurred for collection of tax revenue. However, non-tax revenue at Rs 3,238 crore during 2008-09 exceeded the projections made by TFC (Rs 2,066 crore) and by the State Government in the FCP (Rs 2,185 crore). It was less by Rs 806 crore (20 *per cent)* than the projection made by the State Government in its MTFPS (Rs 4,044 crore).

1.3.2 Loss of revenue due to evasion of taxes, write offs/waivers and refunds

Out of 12,890[3] cases of evasion of taxes (12,060 cases were detected during 2008-09 and 830 cases during earlier periods), assessments/investigations were completed in 11,880 cases and additional demand of Rs 223.68 crore including penalty had been raised by the Excise and Taxation Department. The Government suffered a loss of Rs 16.37 crore on account of recovery of revenue which was not realised hence, written off.

Refunds of Rs 1,110.50 crore were made to 2,978 claimants, against outstanding amounts totalling Rs 1,748.14 crore in 3,474 cases by the Excise and Taxation, Power and Urban Development Departments during 2008-09. Of the 496 balance cases involving refunds of Rs 638 crore, 71 *per cent* cases of refund pertained to the Excise and Taxation Department and 29 *per cent* cases, involving 91 *per cent* of the total amount, related to the Urban Development Department.

1.3.3 Revenue Arrears

The arrears of revenue increased by 118 *per cent* from Rs 1,087 crore in 2004-05 to Rs 2,367 crore[3] in 2008-09. Of these, Rs 606 crore (26 *per cent*) was outstanding for a period of more than five years. The arrears were mainly on account of taxes on sales, trade, etc.: Rs 1,956 crore, tax on entry of goods into local areas: Rs 159 crore, taxes and duties on electricity: Rs 101 crore, taxes on goods and passengers: Rs 58 crore and State excise: Rs 47 crore. As evident from above data, taxes on sales, trade, etc. constituted 83 *per cent* of the total arrears. Demands amounting to Rs 591 crore could not be realised due to granting of stays by the High Court, judicial and non-judicial authorities. Collection of arrears of revenue needs immediate attention along with effective measures for their realisaton in a time-bound manner.

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government's level assumes significance since major expenditure responsibilities are entrusted with them.

[3] Figures are as per Audit Report (Revenue Receipts).
[3] Figures are as per Audit Report (Revenue Receipts).

Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sectors.

1.4.1 Growth and Composition of Expenditure

Trends observed in total expenditure of over a period of five years (2004-2009) are shown in **Chart 1.6** and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively. **Table 1.4** presents the growth of capital expenditure over five years (2004-09):

Chart 1.6: Trends in various components of total expenditure

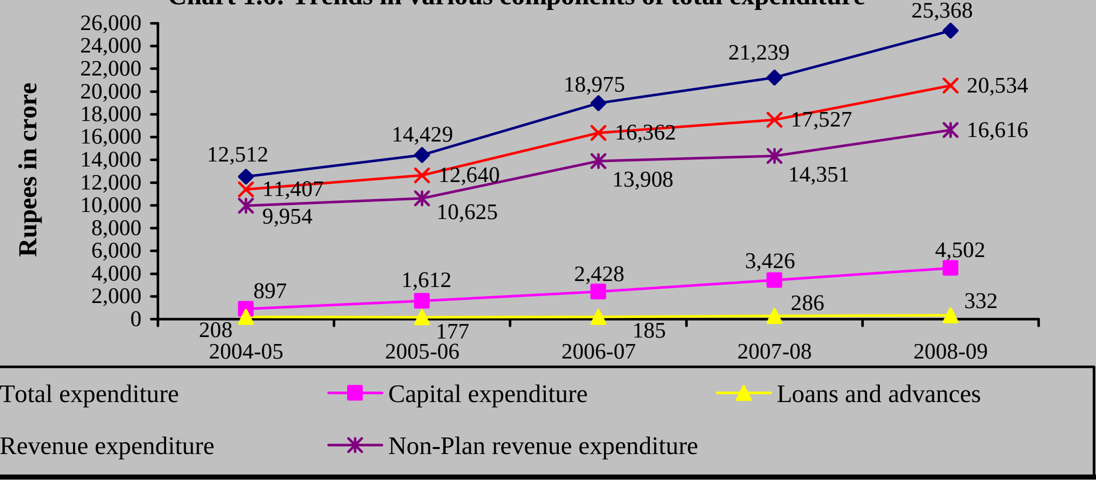


Table 1.4: Growth of Capital Expenditure

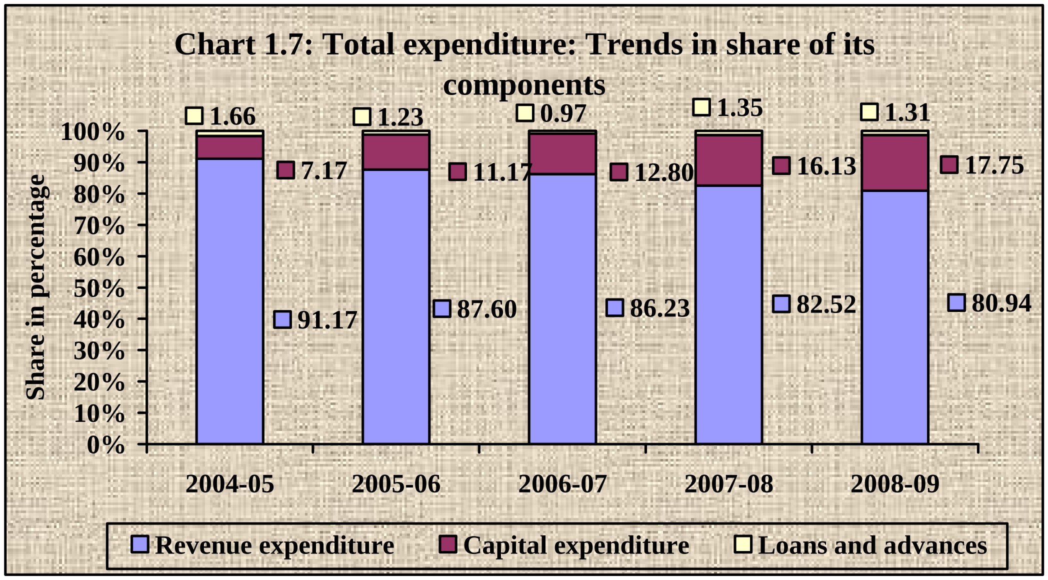
(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Capital expenditure	897	1612	2428	3426	4502
Growth rate (*per cent*)	132	80	51	41	31
Percentage of total expenditure	7.17	11.17	12.80	16.13	17.75

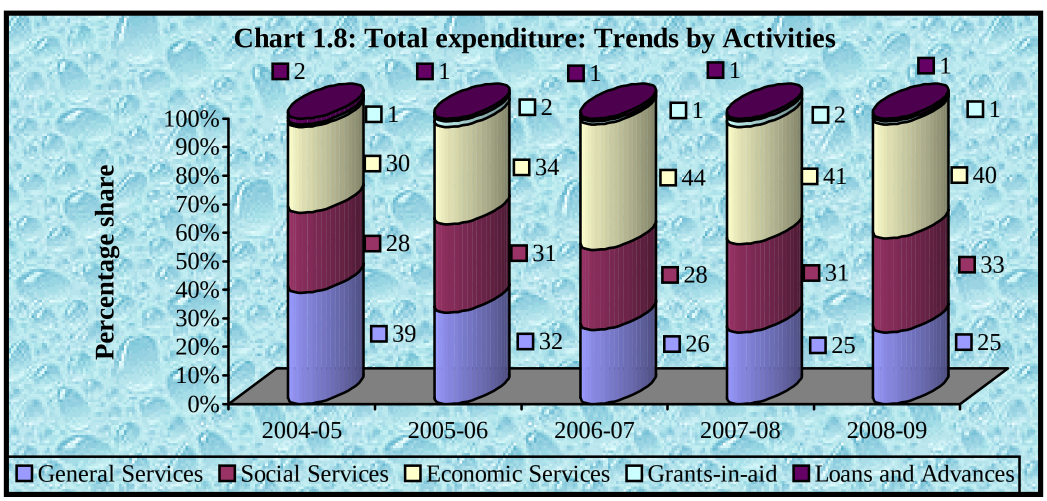
(Source: State Finance Accounts)

The trends of total expenditure depict that the trends in various component of expenditure during the last five years vis-à-vis the total expenditure during the period has increased by Rs 12,856 crore (103 *per cent*) from Rs 12,512 crore in 2004-05 to Rs 25,368 crore in 2008-09. Of this, revenue expenditure increased by Rs 9,127 crore (80 *per cent*) from Rs 11,407 crore in 2004-05 to Rs 20,534 crore in 2008-09. Capital expenditure increased by Rs 3,605 crore (402 *per cent*) from Rs 897 crore in 2004-05 to Rs 4,502 crore in 2008-09. Disbursement of loans and advances also increased by Rs 124 crore (60 *per cent*) from Rs 208 crore in 2004-05 to Rs 332 crore in 2008-09. However, the share of NPRE in total expenditure decreased from 80 *per cent* in 2004-05 to 65 *per cent* in 2008-09.

The total expenditure during 2008-09, i.e. Rs 25,368 crore increased by Rs 4,129 crore (19 *per cent*) over the previous year. Of the total increase, revenue expenditure contributed Rs 3,007 crore (73 *per cent*) while capital expenditure accounted for Rs 1,076 crore (26 *per cent*). The remaining amount of Rs 46 crore (one *per cent*) was contributed by loans and advances. The bifurcation of total expenditure into Plan and Non-Plan expenditure revealed that the share of Plan and Non-Plan expenditure was 31 and 68 *per cent* respectively.



The share of revenue expenditure in total expenditure decreased from 91.17 *per cent* in 2004-05 to 80.94 *per cent* in 2008-09, whereas the share o f capital expenditure in total expenditure increased from 7.17 *per cent* in 2004-05 to 17.75 *per cent* in 2008-09. The share of loans and advances disbursed also decreased from 1.66 *per cent* in 2004-05 to 1.31 *per cent* in 2008-09. The NPRE ratios to GSDP and to total expenditure came down from 9.37 *per cent* and 67.57 *per cent* in 2007-08 to 9.20 *per cent* and 65.50 *per cent* respectively in 2008-09. However, the buoyancy of total revenue expenditure with reference to GSDP increased from 0.133 in 2004-05 to 0.141 in 2008-09.



The movement of relative shares of various components of expenditure indicated that while the share of General Services including interest payment declined from 39 *per cent* in 2004-05 to 25 *per cent* in 2008-09, the share of Economic Services increased from 30 *per cent* in 2004-05 to 40 *per cent* in 2008-09, mainly due to the steep increase in expenditure on power projects. The combined share of Social and Economic Services which represented development expenditure increased from 58 *per cent* in 2004-05 to 73 *per cent* in 2008-09, though there was no substantial increase in 2008-09 from its level in the previous year. The share of Loans and Advances remained constant during 2004-09.

Revenue expenditure of the State consistently increased at an average rate of 16 *per cent* from Rs 11,407 crore in 2004-05 to Rs 20,534 crore in 2008-09. The increase of Rs 3,007 crore (17 *per cent*) during 2008-09 over the previous year was mainly due to higher expenditure on general education (Rs 955 crore), power (Rs 439 crore), pension and other retirement benefits (Rs 317 crore), police (Rs 292 crore), other rural development programmes (Rs 274 crore) and medical and public health (Rs 175 crore). The break up of revenue expenditure into NPRE and Plan Revenue Expenditure (PRE) showed that the proportionate share of NPRE was substantially higher than the PRE. The total increase of Rs 3,007 crore comprised Rs 2,265 crore and Rs 742 crore in NPRE and PRE respectively.

The NPRE in 2008-09 at Rs 16,616 crore was higher than the normative assessment of TFC (Rs 10,445 crore) and the projection of the State Government made in its FCP (Rs 14,400 crore) and the MTFPS (Rs 16,144 crore).

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments and expenditure on salaries and wages, pensions and subsidies. The trends of expenditure on these components during 2004-09 are presented in **Table 1.5** and **Chart 1.9**.

Table 1.5: Components of committed expenditure

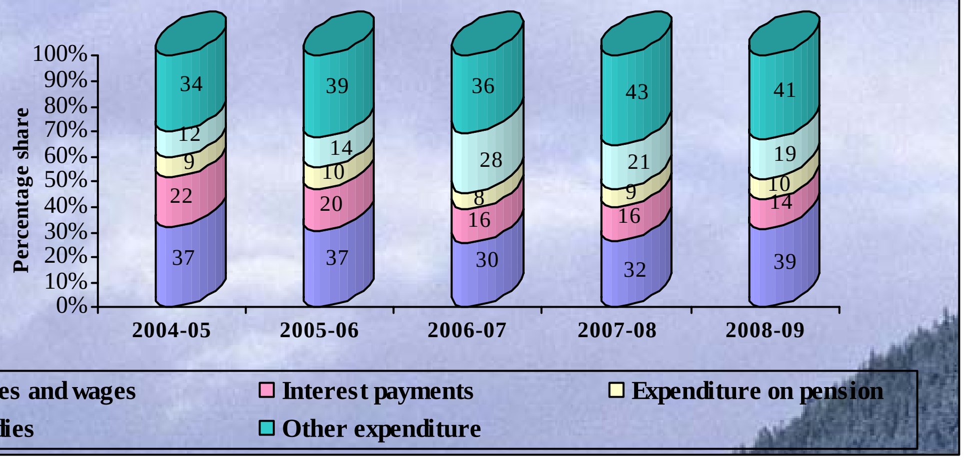
(Rupees in crore)

Component of committed expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget estimates	Actuals
Salaries and wages, of which	3,714 (33)	3,894 (28)	4,126 (23)	4,566 (23)	5,222 (24)	6,546 (35)
Non-Plan Head	3,308	3,584	3,784	4,292	4,797	6,069
Plan Head **	406	310	342	274	425	477
Interest Payments	2,235 (20)	2,100 (15)	2,265 (13)	2,346 (12)	2,536 (12)	2,339 (13)
Expenditure of pension	902 (8)	1,033 (7)	1,173 (7)	1,298 (7)	1,800 (8)	1,614 (9)
Subsidies	1,157 (10)	1,466 (11)	3,852 (21)	3,057 (15)	2,838 (13)	3,190 (17)
Other components	3,399 (30)	4,167 (30)	4,946 (28)	6,242 (32)	7,885 (36)	6,845 (37)
Total	**11,407**	**12,660**	**16,362**	**17,527**	**20,281**	**20,534**

Note: **Figures in parentheses indicate percentage to revenue receipts.**

** **Plan Head also includes the salaries and wages paid under Centrally sponsored schemes.**

Chart 1.9: Share of committed expenditure in Non-Plan revenue expenditure during 2004-09 (*per cent*)



The expenditure on salaries and wages increased by 76 *per cent* from Rs 3,714 crore in 2004-05 to Rs 6,546 crore in 2008-09. Actual salary expenditure at Rs 6,546 crore in 2008-09 was, however, higher than the projections in the State's own FCP (Rs 4,770 crore) and that envisaged in the MTFPS of the State Government (Rs 6,196 crore). The total Non-Plan salary bill of revenue expenditure, net of interest payments and pension was 36 *per cent*, which was higher than the norm of 35 *per cent* envisaged by the TFC.

Interest payments increased marginally by five *per cent* from Rs 2,235 crore in 2004-05 to Rs 2,339 crore in 2008-09. However, during 2008-09, there was a decrease of Rupees seven crore (0.30 *per cent*) over the previous year. The percentage of interest payments to revenue receipts consistently decreased from 20 *per cent* in 2004-05 to 13 *per cent* in 2008-09. Interest payments were within the medium-term target of 15 *per* cent of revenue receipts to be achieved by 2009-10 as envisaged by TFC. Interest payments (Rs 2,339 crore) during 2008-09 were also within the projections made by the State in its FCP (Rs 2,706 crore) and the projections in the MTFPS (Rs 2,354 crore) for the year 2008-09.

Pension payments increased by Rs 712 crore (79 *per cent*) from Rs 902 crore in 2004-05 to Rs 1,614 crore in 2008-09 but its percentage to revenue receipts increased slightly from eight in 2004-05 to nine in 2008-09. The expenditure on pension payments (Rs 1,614 crore) in 2008-09 was lower than the projection made in State's MTFPS but was higher by 26 *per cent* and 13 *per cent* than the assessment of TFC for the year and the assessment made in the State's FCP respectively. To meet the increasing pension liabilities, a new Contributory Pension Scheme was introduced by the State with effect from 1 January 2006.

Payment of subsidies increased by Rs 2033 crore (176 *per cent*) from Rs 1157 crore in 2004-05 to Rs 3190 crore in 2008-09. Payment of subsidies (Rs 3,190 crore) during 2008-09 constituted 13 *per cent* of the total expenditure and consumed 17 *per cent* of revenue receipts. Out of total subsidies of Rs 3,190 crore, Rs 2,997 crore (94 *per cent*) were for the power and energy sector, the bulk of which was for rural electrification (Rs 2,913 crore) and electricity arrears waiver schemes (Rs 76 crore). The actual subsidy to the power and energy sector was 179 *per* cent (Rs 2,997 crore) of the projection (Rs 1,670 crore) in the State's own FCP. The general subsidy at Rs 193 crore was also 175 *per cent* of the projection (Rs 110 crore) in the FCP for 2008-09.

1.4.3 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the period 2004-05 to 2008-09 is given in **Table 1.6**.

Table 1.6: Financial assistance to local bodies, etc.

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09		
					Budget estimate	Actual	Percentage of variation
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	72.91	244.06	247.53	459.65	676.75	538.49	(-) 20
Municipal Corporations and Municipalities	180.00	Nil	125.63	103.22	478.45	464.45	(-)3
Zila Parishads and Other *Panchayati Raj* Institutions	29.42	73.12	135.02	93.88	666.23	412.16	(-)38
Development Agencies	121.28	303.31	231.93	520.33	301.99	268.75	(-)11
Hospitals and other Charitable Institutions	22.32	25.28	20.32	49.46	99.55	46.80	(-)53
Other Institutions	92.19	196.29	161.51	345.05	229.55	322.72	(+)41
Total	**518.12**	**842.06**	**921.94**	**1,571.59**	**2,452.52**	**2,053.37**	
Assistance as percentage of RE	**5**	**7**	**6**	**9**		**10**	

Financial assistance to local bodies and other institutions increased from Rs 518.12 crore in 2004-05 to Rs 2,053.37 crore in 2008-09 (296 *per cent*) and its percentage to revenue expenditure ranged around five to 10 during 2004-09. An analysis of the above table reveals that during 2008-09, the financial assistance increased to Rs 2,053.37 crore from Rs 1,571.59 crore in 2007-08. The increase of Rs 481.78 crore (31 *per cent*) over the previous year was mainly due to more assistance to educational institutions (Rs 79 crore), Municipal Corporations and Municipal Committees (Rs 361 crore) and Zila Parishad and other panchayati raj institutions (Rs 318 crore). The assistance to Development Agencies and Other Institutions decreased by Rs 252 crore and Rs 22 crore respectively. Against the estimated provision of Rs 2,452.52 crore, financial assistance of Rs 2,053.37 crore was released. The decrease in the actual release vis-à-vis the budget estimates to educational institutions, Municipal Co-corporations and Municipalities, Zila Parishads, etc., ranged between three and 53 *per cent*. However, the actual release to Other Institutions was more than the budget estimate by 41 *per cent*, mainly under non-conventional sources of energy, social and economic services and compensation and assignments to local bodies and panchayati raj institutions. Actual release of Rs 876.61 crore to local bodies was more than the projection of TFC (Rs 36.43 crore).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure and use and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low level of spending on any sector by a particular State may be either due to the low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average while low fiscal capacity would be reflected if the State's per capita expenditure was below the respective national average, even after having a fiscal priority that was more than or equal to the national average. **Table 1.7** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2008-09.

Table-1.7: Fiscal Priority and Fiscal Capacity of the State in 2005-06 and 2008-09

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	**19.50**	**61.44**	**30.41**	**14.13**
Haryana's Average (Ratio) 2005-06	**15.44**	**65.96**	**30.73**	**11.17**
All States/National Average* (Ratio) 2008-09	**19.16**	**67.68**	**33.90**	**16.87**
Haryana Average (Ratio)* 2008-09	**14.05**	**73.88**	**32.99**	**17.75**
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average Per capita Expenditure 2005-06	**3,010**	**1,490**	**692**	
Haryana's per Capita expenditure (Amount in Rs) in 2005-06	**4,120**	**1,919**	**698**	
Adjusted per Capita Expenditure (Amount in Rs) in 2005-06**	**NR**	**NR**	**1,115**	
All States' Average per capita expenditure 2008-09	**5,030**	**2,520**	**1,254**	
Haryana's Per Capita Expenditure (Amount in Rs) in 2008-09	7,682	3,430	1,845	
Adjusted Per Capita** Expenditure (Amount in Rs) in 2008-09	NR	4,805	NR	

* As *per cent* of GSDP
** Calculated as per the methodology explained in the Appendix 1.2
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure. NR = No adjustment required since the State is giving adequate fiscal priority.
Population of Haryana 2.31 crore in 2005-06 and 2.44 crore. in 2008-09.
\# Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.
Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: http://www.censusindia.gov.in) Population = Average of Projected population for 2005 and 2006.

Table 1.7 shows that in 2005-06 and 2008-09, the ratios of aggregate expenditure to GSDP for Haryana (15.44 and 14.05 *per cent*) were lower than the all the

States/ National Average (19.51 and 19.16 *per cent*). This means that aggregate expenditure as a proportion of GSDP was low. On an average, other States were spending a higher proportion of their GSDP annually. Haryana does have a very high GSDP relative to other States but it is worth noting that States with higher GSDPs like Uttar Pradesh, Andhra Pradesh, Tamil Nadu and Karnatka have a higher AE/GSDP ratio than the all States average. Similarly, the ratio of social sector expenditure as a proportion of aggregate expenditure for Haryana is also lower than the national average. This indicates that Haryana is giving lower fiscal priority to social sector expenditure compared to other States. In the case of developmental expenditure and capital expenditure however, Haryana is giving adequate priority as the DE/AE and the CE/AE ratios were higher than the respective national averages in 2008-09. Since developmental expenditure is a sum of the amounts spent on Economic Services and Social Sector Services, Haryana has given a very high priority to its Economic Services. It may be noted that compared to 2005-06, Haryana has given greater priority to CE as the ratio was lower than the national average in 2005-06 but became higher in the current year.

The per capita expenditure of DE, SSE and CE (Rs 4,120, Rs 1,919 and Rs 698 respectively) in 2005-06 and Rs 7,682, Rs 3,430 and 1,845 respectively in 2008-09 for Haryana was higher than the national average during these years, mainly because Haryana's population is relatively less compared to most other non-special category states. Even in the case of social sector expenditure, despite the low fiscal priority given by the State, the per capita expenditure during 2005-06 and 2008-09 was Rs 1,919 and Rs 3430, which is higher than the national average of Rs 1,490 and Rs 2,520 respectively. Using the methodology for calculating adjusted expenditure in ***Appendix 1.2***, it was observed that if the AE and SSE are adjusted using the formula, then the adjusted per capita expenditure on SSE would be even higher at Rs 4,805. In other words, the absorptive capacity (capacity of the Government to implement schemes to achieve developmental outcomes) for all categories of expenditure is relatively high in Haryana.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[4]. Apart from improving the

[4] *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods, road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

allocation towards development expenditure[5], particularly in view of the fiscal space being created on account of the decline in debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being made on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.8** presents the trends in development expenditure[6] relative to the aggregate expenditure of the State during the period 2004-05 to 2008-09. **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table 1.8: Development expenditure

(Rupees in crore)

Component of committed expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
Development expenditure (a to c)	**7,363(59)**	**9,375(65)**	**13,615(72)**	**15,346(72)**	**16,194(67)**	**18,743(74)**
a. Development revenue expenditure	6,417(51)	7,810(54)	11,242(59)	11,961(56)	12,915(54)	14,294(56)
b. Development capital expenditure	839(7)	1,530(11)	2,338(12)	3,255(15)	3,211(13)	4,307(17)
c. Development loans and Advances	107(1)	35(0.24)	35(0.18)	130(0.61)	68(0.07)	142(0.56)

(Note: Figures in parentheses indicate percentage of aggregate expenditure.)

Development expenditure increased by Rs 11,380 crore (155 *per cent*) from Rs 7,363 crore in 2004-05 to Rs 18,743 crore in 2008-09. This expenditure which constituted 74 *per cent* of the total expenditure increased by Rs 3,397 crore (22 *per cent*) from Rs 15,346 crore in 2007-08 to Rs 18,743 crore in 2008-09. Revenue expenditure constituted 76 *per cent* of development expenditure whereas the share of capital expenditure was only 23 *per cent*. This expenditure also exceeded its budget estimates by Rs 2,549 crore (16 *per cent*). Against the provision of Rs 16,194 crore, the actual expenditure was Rs 18,743 crore.

5 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

6 Development expenditure in defined as total expenditure made on Social and Economic Services.

Table 1.9 Efficiency of expenditure use in selected Social and Economic Services

(Rupees in crore)

Social/economic infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
Education, Sports, Art and Culture	0.030	63.17	0.01-	0.023	66.95	0.01-
Health and Family Welfare	0.087	70.53	-	0.057	75.24	-
Water Supply, Sanitation, Housing and Urban Development	0.430	23.71	8.72	0.422	26.30	8.96
Total (SS)	**0.138**	**43.21**	**1.43**	**0.133**	**50.02**	**1.46**
Economic Services (ES)						
Agriculture and Allied Activities	0.031	30.45	0.79	0.369	48.51	1.22
Irrigation and Flood Control	0.556	34.36	11.51	0.518	45.98	12.66
Power and Energy	0.248	*	-	0.221	0.03	-
Transport	0.294	28.54	28.67	0.408	30.19	26.85
Total (ES)	**0.273**	**15.98**	**6.76**	**0.312**	**18.82**	**6.41**
Total (SS + ES)	**0.213**	**29.05**	**4.20**	**0.232**	**34.67**	**3.89**

TE: Total expenditure; CE: Capital expenditure; RE: Revenue expenditure; S&W: Salaries and wages; O&M: Operations and maintenance
***   Less than Rupees one crore**

The ratio of capital expenditure on Social Services with reference to the total expenditure decreased from 0.138 in 2007-08 to 0.133 in 2008-09, whereas the ratio of capital expenditure on Economic Services increased from 0.273 in 2007-08 to 0.312 in 2008-09.

The share of expenditure on salaries and wages and O & M under Social Services in revenue expenditure increased from 43.21 and 1.43 p*er cent* in 2007-08 to 50.02 and 1.46 *per cent* in 2008-09 respectively. However, under Economic Services the share of salaries and wages increased from 15.98 in 2007-08 to 18.82 in 2008-09 but the share of operational and maintenance expenditure marginally decreased from 6.76 *per cent* in 2007-08 to 6.41 *per cent* in 2008-09. Under SS and ES combined, the expenditure on salaries and wages increased from 29.05 *per cent* in 2007-08 to 34.67 *per cent* in 2008-09.

1.5.3 Flagship schemes: Position of expenditure

The Government of India has identified 27 Central sector and additional Central assistance linked schemes as flagship schemes depending on their expected impact on the social and economic development of the nation. The following amounts were released for the schemes by the Central Government, Ministries to the Government of Haryana, their functionaries and various implementing agencies/NGOs during 2008-09.

Table 1.10: Expenditure vis-à-vis availability of funds under flagship schemes implemented in Haryana

(Rupees in crore)

Sr. No.	Name of the scheme	Funds received		Total including opening balance and funds received from other sources	Expenditure	Percentage of expenditure to available funds
		From GOI	State Share			
1	National Rural Health Mission	211.59	0.00	370.28	244.70	66
2	Integrated Watershed Management Programme (Desert Development Programme)	10.59	8.14	47.56	19.67	41
3	National Rural Employment Guarantee Act (NREGA)	134.57	13.12	160.12	109.85	69
4	Accelerated Irrigation Benefits Programme (ARBP)	0.00	30.29	30.29	30.29	100
5	Backward Regions Grant Fund (BRGF)	11.57	0.00	39.72	23.55	59
6	Indira Awas Yojana (IAY)	50.33	16.79	68.62	50.05	73
7	Sarva Shiksha Abhiyan (SSA)	204.52	110.13	374.40	295.66	79
8	Rural Water Supply Schemes (A) Accelerated Rural Water Supply Scheme (ARWSP)	87.40	0.00	87.40	87.40	100
	(B) Desert Development Programme (DDP)	54.80	0.00	54.80	54.80	100
9	Midday Meal Scheme	57.48	37.96	105.84	94.37	89
10	Integrated Child Development Services Scheme	87.98	31.09	119.07	120.15	101
11	National Horticulture Mission (NHM)	33.00	2.22	65.99	57.34	87
12	Pradhan Mantri Gram Sadak Yojana (PMGSY)	272.02	0.00	373.99	339.78	91
13	Macro-Management of Agriculture including National Watershed Development Project for Rainfed Area and Extension Service.	23.00	2.56	25.56	25.31	99
14	National Agriculture Insurance Scheme	4.74	0.00	4.74	4.74	100
15	Integrated scheme on Oil seeds, Pulses and Maize	7.32	2.44	9.76	9.73	100
16	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	NA	161.95	161.95	161.95	100
17	National e-governance Action Plan	NA	11.28	11.28	11.28	100
18	Rajiv Gandhi Grameen Vidyuti Karan Yojana (RGGVY)	37.43	-	37.43	53.94	144
19	Accelerated Power Development and Reform Programme (APDRP)	-	-	-	28.15	-

(Source: Information collected from concerned departments and AG (A&E) office.)

Table 1.10 shows that utilisation of available funds under the Integrated Watershed Management Programme (Desert Development Programme), Backward Regions Grant Fund, National Rural Health Mission and National Rural Employment Guarantee Scheme ranged between 41 and 69 *per cent*.

Besides stepping up the expenditure on key social and economic services, the need to enhance human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government should relate expenditure to outcomes in terms of quality, reach and final impact.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-HFRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on the budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during 2008-09 vis-à-vis the previous years.

1.6.1 Financial results of irrigation works

The financial results of seven out of 33 irrigation projects with a capital outlay of Rs 400.50 crore at the end of March 2009 showed that revenue realised from these projects during 2008-09 (Rs 46.53 crore) was 12 *per cent* of the capital outlay. After meeting the working and maintenance expenditure (Rs 215.60 crore) and interest charges (Rs 20.29 crore), there was a loss of Rs 189.36 crore, which was 47 *per cent* of the capital outlay on these projects.

1.6.2 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.11**. Only those projects where the scheduled dates for completion are already over as of 31 March 2009 have been included under incomplete projects.

Table 1.11: Department-wise profile of incomplete projects

(Rupees in crore)

Department	Number of incomplete projects	Initial budgeted cost	Revised total cost of projects*	Total expenditure upto March 2009
Buildings and Roads	24	117.01	119.14	77.30
Irrigation	5	6.37	9.86	8.30
Total	**29**	**123.38**	**129.00**	**85.60**

* **Revised total cost of projects as per last revision by the State Government on March 2009.**

Out of 29 incomplete projects required to be completed by 31 March 2009, the cost of six projects was revised from Rs 8.55 crore to Rs 14.17 crore. Of these, five projects pertained to irrigation where the initial estimated cost was revised from Rs 6.37 crore to Rs 9.86 crore while in the remaining case of a road project, the initial estimated cost was revised from Rs 2.18 crore to Rs 4.31 crore. In four projects pertaining to buildings and roads, against an estimated cost of Rs 6.04 crore, expenditure of Rs 8.73 crore was incurred, resulting in extra expenditure of Rs 2.69 crore. The scheduled dates of completion of these projects were between April 2007 and March 2009, but these were incomplete involving time overruns varying from nine to 16 months in the case of irrigation projects and from one to 23 months for road projects. Reasons for delays in completion of these projects were not intimated by the departments.

1.6.3 Investments and returns

As of 31 March 2009, the Government had invested Rs 5,031.32 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**). The average return on these investments was 0.14 *per cent* in the last five years while the Government paid an average interest rate of 8.38 *per cent* on its borrowings during 2004-09.

Table 1.12: Return on investments

Investment/return/cost of borrowings	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget estimate	Actuals
Investment at the end of the year (Rupees in crore)	1,861.34	2,261.44	3,058.05	3,988.43	929.29	5,031.32
Return (Rupees in crore)	2.35	1.92	5.62	6.05	9.13	8.27
Return (*per cent*)	0.13	0.09	0.18	0.15	0.98	0.16
Average rate of interest on Government borrowings (*per cent*)	8.49	8.95	9.20	7.43	7.75	7.82
Difference between interest rate and return (*per cent*)	8.36	8.86	9.02	7.28	6.77	7.66

While the investments by Government increased by Rs 3,169.98 crore (170 *per cent*) from Rs 1,861.34 crore in 2004-05 to Rs 5,031.32 crore in 2008-09, the return from investments increased from Rs 2.35 crore in 2004-05 to Rs 8.27 crore in 2008-09. The percentage return from investments ranged from a meagre 0.09 to 0.18 during the last five years, while the Government paid interest at an average rate of 7.43 to 9.20 *per cent* on its borrowing during 2004-09. Investment of Rs 1,042.89 crore during 2008-09 exceeded the budget provision (Rs 929.29 crore) by Rs 113.60 crore (12 *per cent*).

One Statutory Corporation and 11 Government Companies with an aggregate investment of Rs 4,625 crore up to 2008-09 were incurring losses and their accumulated losses amounted to Rs 3,303 crore as per the accounts furnished by these Companies upto 2008-09 (***Appendix 1.6***). It is pertinent to note that Rs 856 crore of the total investment (82 *per cent*) in 2008-09 was made by the State Government in the equity capital of Uttar Haryana Bijli Vitran Nigam Limited (Rs 110 crore), Dakshin Haryana Bijli Vitran Nigam Limited (Rs 140 crore), Haryana Vidyut Prasaran Nigam Limited (Rs 135 crore) and Haryana Power

Generation Limited (Rs 471 crore). Accumulated losses of these Government Companies amounted to Rs 1,560 crore, Rs 996 crore, Rs 83 crore and Rs 168 crore respectively for the years for which their accounts were finalised till 2008-09. The losses of these four power distribution companies constituted 85 *per cent* of the total losses of Government Statutory Corporations and Government Companies during the year. The losses were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring[7]. Thus, Government needs not only to invest its high cost borrowings more judiciously to get better returns, but also consider disinvesting its equity in loss-making units.

1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department–wise position of the investments made by the Government up to the year for which proforma accounts are finalised, net profit/loss as well as return on capital invested in these undertakings are given in ***Appendix 1.7***. The following points were observed:

- An amount of Rs 1,762.00 crore had been invested by the State Government in these undertakings at the end of the financial year up to which the accounts were finalised.

- Of the total undertakings, only two could earn net profit amounting to Rs 16.15 crore against the invested capital of Rs 20.49 crore, thereby yielding a rate of return of 79 *per cent* (Agriculture Department-Purchase and Distribution of Pesticides and Printing and Stationery-National Text Book Scheme).

- Of the loss-making undertakings, one undertaking incurring losses continuously for more than five years (Haryana Roadways) and one undertaking, viz. Agriculture Department (Seed Depot Scheme) have not prepared proforma accounts for the last 21 years.

- The accumulated losses of these three departmental undertakings were Rs 66.05 crore as against the total investment of Rs 1,741.51 crore.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.13** presents the outstanding loans and advances as on 31 March 2009 and interest receipts vis-à-vis interest payments during the last three years.

[7] Para 1.17 of Audit Report (Commercial) for the year ended 31 March 2009.

Table 1.13: Average interest received on loans advanced by the State Government

(Rupees in crore)

Quantum of loans / interest receipts / cost of borrowings	2006-07	2007-08	2008-09	
			Budget Estimate	Actual
Opening Balance	3,841	1,825		1,897
Amount advanced during the year	185	286	391	332
Amount repaid during the year	2,201	214	321	352
Closing Balance	**1,825**	**1,897**		**1,877**
Of which Outstanding balance for which terms and conditions have been settled	1,825	1,897		1,877
Net addition	(-)2,016	72	70	(-)20
Interest receipts	95	21	115	53
Interest receipts as percentage of outstanding Loans and advances	3.35	1.13		2.81
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.92	8.06	8.45	7.25
Difference between interest payments and interest receipts (*per cent*)	4.57	6.93		4.44

Total outstanding loans and advances as on 31 March 2009 was Rs 1,877 crore, against an outstanding amount of Rs 1,897 crore as on 31 March 2008. Interest received against the loans advanced was 2.81 *per cent* in 2008-09 and was below the weighted rate of interest of 7.82 *per cent* on Government borrowings during 2008-09. Interest of Rs 53 crore received during the year against loans and advances was much below the budgeted projections (Rs 115 crore). Out of Rs 332 crore advanced during 2008-09, Rs 189.87 crore was advanced to Government servants while the balance of Rs 142 crore was advanced mainly for industry and minerals (Rs 138.53 crore), agriculture and allied activities (Rs 2.64 crore) and rural development (Rs 1.27 crore).

Loans amounting to Rs 176.31 crore were outstanding against the Haryana State Minor Irrigation (Tube wells) Corporation Limited, Chandigarh which was wound up in July 2002 and the loan remained unrecovered. Loans amounting to Rs 490.44 crore were outstanding at the beginning of year 2008-09 against co-operative sugar mills. Further loans totalling Rs 128 crore were given to these co-operative sugar mills without any recoveries against the previous loans.

1.6.6 Cash Balances and Investment of Cash Balances

Table 1.14 depicts the cash balances and investments made by the State Government out of the cash balances during the year.

Table 1.14 Cash balances and investment of cash balances

(Rupees in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase(+)/ decrease(-)
Cash balances	6,500.06	3,404.94	(-)3,095.12
Investment from cash balances (a to d)	6,354.38	2,841.58	(-)3,512.80
a. GOI Treasury Bills	6,354.38	2,841.58	(-)3,512.80
b. GOI securities	-	-	-
c. Other securities	-	-	-
d. Other investments	-	-	-
Fund-wise break-up of investment from earmarked balances (a to e)	866.22	1157.97	(+)291.75
a. Sinking Fund	229.13	289.25	(+)60.12
b. Funds for development schemes	0.11	0.11	-
c. Funds for village reconstruction for *Harijan* uplift	2.19	2.19	-
d. Calamity Relief Fund	583.72	811.37	(+)227.65
e. Guarantee Redemption Fund	51.07	55.05	(+)3.98
Interest realized	410.46	302.81	(-)107.65

Cash balances during the year decreased from Rs 6,500.06 crore to Rs 3,404.94 crore. Consequently, the investments out of cash balances also decreased from Rs 6,354.38 crore to Rs 2,814.58 crore. However, the investment from earmarked balances increased by Rs 291.75 crore, from Rs 866.22 crore on 1 April 2008 to Rs 1,157.97 crore on 31 March 2009, which was mainly due to more investments (Rs 227.65 crore) out of the Calamity Relief Fund and Rs 60.12 crore out of the Sinking Fund. Interest of Rs 302.81 crore realised on investments during 2008-09 was less by Rs 107.65 crore (26 *per cent*) than the interest earned (Rs 410.46 crore) during 2007-08.

The efficiency of handling of cash balances by the State can also be assessed by monitoring the trends in the monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.15** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table-1.15: Trends in Monthly Average Daily Cash Balances and Investments in Auction Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances			Investment in 14 day Treasury Bills			Investment in Auction Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	2.89	6.14	2.46	4,126.98	1,552.63	897.26	NIL	4,500.00	4,500.00
May	1.15	10.79	3.69	3,977.14	1,540.20	856.43	500.00	4,500.00	4,500.00
June	1.14	1.15	1.15	4,163.80	1,564.43	1,261.48	500.00	4,000.00	4,000.00
July	1.14	1.15	1.15	3,944.64	1,603.68	700.82	1,000.00	4,500.00	4,000.00
August	1.15	1.15	3.43	4,333.76	1,545.13	827.20	1,000.00	4,500.00	3,500.00
September	1.15	1.14	7.45	4,291.01	1,485.11	558.47	1,000.00	5,000.00	3,500.00
October	1.14	1.14	9.15	4,367.62	1,181.99	Nil	1,000.00	4,000.00	3,000.00
November	1.14	1.14	1.15	4,697.83	1,321.27	0.01	1,000.00	4,000.00	2,000.00
December	2.39	1.69	2.13	3,442.79	1,557.38	1,299.81	2,500.00	4,500.00	2,000.00
January	1.77	1.14	1.15	3,738.91	1,848.04	714.27	2,500.00	4,500.00	2,000.00
February	1.14	1.14	1.15	4,190.53	1,368.25	29.83	2,500.00	5,500.00	2,000.00
March	2.06	1.14	11.50	2,907.02	854.38	2,841.58	3,500.00	5,500.00	Nil

The State Government had to maintain a minimum cash balance of Rs 1.14 crore as per its agreement with the Reserve Bank of India but during 2008-09, the minimum cash balances for five days were maintained by taking ordinary and special Ways and Means advances amounting to Rs 92.36 crore, for which interest of Rs 4.17 lakh at the rate of seven *per cent* was paid.

1.7 Assets and liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.4*** gives an abstract of such liabilities and assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

"Total liability" as defined in the HFRBM Act, means the liabilities under the Consolidated Fund of the State and the Public Account of the State and also include borrowings by public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budgets.

1.7.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.3***. The compositions of fiscal liabilities during 2008-09 vis-à-vis the previous year are presented in **Charts 1.10** and **1.11.**

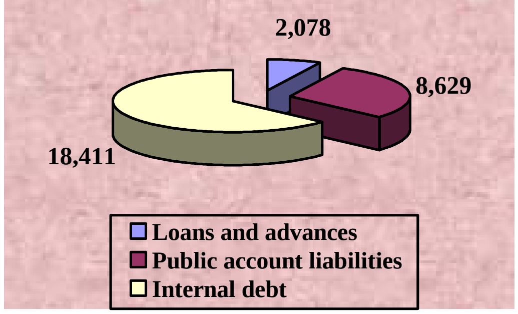


Chart 1.10.: Composition of outstanding fiscal liabilities as on 01 April 2008 (Rupees in crore)

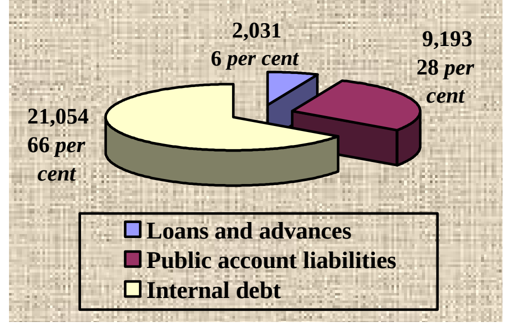


Chart 1.11: Composition of outstanding fiscal liabilities as on 31 March 2009 (Rupees in crore)

The overall fiscal liabilities of the State increased from Rs 29,118 crore in 2007-08 to Rs 32,278 crore in 2008-09. The growth rate was 10.85 *per cent* during 2008-09 over the previous year, mainly due to increase in receipts of public debt (Rs 2,643 crore), Small Savings, Provident Funds, etc., (Rs 352 crore) and deposits (Rs 217 crore). The ratio of fiscal liabilities to GSDP showed a consistently decreasing trend and decreased from 0.259 *per cent* in 2004-05 to 0.179 *per cent* in 2008-09. These liabilities were 1.75 times the revenue receipts and 2.17 times the State's own resources as at the end of 2008-09. Payment of interest on the fiscal liabilities was Rs 2,339 crore (7.25 *per cent*) during the year 2008-09. It is significant to note that the total fiscal liabilities at Rs 32,278 crore upto 2008-09 were within the limit of Rs 33,400 crore projected in the State's FCP. However, the amount was higher than the projection (Rs 30,005 crore) made in the MTFPS for 2008-09 presented to the State legislature with the Budget estimates for 2008-09.

The State Government set up a consolidated Sinking Fund during 2002-03. A sum equal to one *per cent* of the outstanding market borrowings as on 31 March of preceding year is deposited in the Fund every year. As on

31 March 2009, the outstanding balance in the Sinking Fund was Rs 291.38 crore.

1.7.3 Status of guarantees-contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. No law under Article 293 of the Constitution has been passed by the State legislature laying down the limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.16.**

Table 1.16: Guarantees given by the Government of Haryana

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			Budget Estimate	Actual
Maximum amount guaranteed	12,694	6,341	5,000	5,188
Outstanding amount of guarantees	5,074	4,402	5,000	4,575
Percentage of maximum amount guaranteed to total revenue receipts	71	32	23	28
Criteria as per State's own FCP	3,799	3,600		3,400

No amount was paid by the Government towards guarantees during 2007-08. The maximum amount guaranteed by the State Government varied from Rs 5,188 crore to Rs 12,694 crore. The outstanding amount of Rs 4,575 crore of guarantees as on 31 March 2009 was in respect of Corporations and Boards (Rs 349.02 crore), Government Companies (Rs 2,430.90 crore), Co-operative Banks and Societies (Rs 1,765.99 crore), Municipalities, Corporations, Townships and other local bodies (Rs 29.47 crore).

The State Government constituted the Guarantee Redemption Fund during 2003-04 to meet the contingent liabilities arising out of the total liabilities. As on 31 March 2009, the balance in the Fund was Rs 55.05 crore. As per the terms of the Guarantee Redemption Fund, the State Government was required to contribute an amount equal to at least 1/5 of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees during the year. The State Government had not contributed any amount to the Fund during 2008-09 However, the outstanding guarantee of Rs 4,575 crore as on 31 March 2009 was higher than the projection of Rs 3,400 crore given in the State's FCP for the year. Total liabilities including guarantees (Rs.36,853 crore) during 2008-09 stood at 20 *per cent* of the GSDP which was well within the limit of 28 *per cent* envisaged in the HFRBM Act to be achieved by 31 March 2010, but were higher than the amount (Rs 35,005 crore) projected in the MTFPS for 2008-09.

1.8 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability[8] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[9]; sufficiency of non-debt receipts[10]; net availability of borrowed funds[11]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.17** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.17: Debt sustainability: Indicators and trends

(Rupees in crore)

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilisation (Quantum Spread + Primary Deficit)	2,068	2,986	6,857	4,027	(-)1,283
Sufficiency of non-debt receipts (Resource Gap)	1,727	920	1,464	(-)2,443	(-)5,293
Net Availability of borrowed funds	(-)122	819	(-)392	(-)1,709	1,113
Burden of interest payments (IP/RR Raito)	20	15	13	12	13
Maturity Profile of State Debt (In Years)*					
0 – 1					1,153.46 (5)
1 – 3					2,790.89 (12)
3 – 5					3,892.16 (17)
5 – 7					3,871.19 (17)
7 and above					11,375.27 (49)

The quantum spread together with primary deficit remained positive during 2004-08, but during 2008-09 it turned negative. As a result, the debt-GSDP ratio

8 Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

9 A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt x rate spread), the debt sustainability condition states that if the quantum spread, together with the primary deficit is zero, the debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

10 Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

11 Defined as the ratio of debt redemption (Principal plus Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

rose which could deteriorate the debt sustainability of the State in the medium to long run, if no corrective action is taken.

The resource gap remained negative during 2007-09 and the primary expenditure was met partially out of borrowed funds, indicating that the State needed to step up its resource mobilisation efforts to ensure debt stability.

The position of net funds available from borrowed funds improved marginally from negative net availability of Rs 1,709 crore in 2007-08 to Rs 1,113 crore in 2008-09. During 2008-09, the State Government raised market loans of Rs 2,795 crore at the rate of 7.08 *per cent* (Rs 1,500 crore) and at the rate of 7.27 *per cent* (Rs 1,295 crore).

The ratio of interest payments to revenue receipts declined from 20 to 13 during 2004-09, which indicates that the burden of interest payment on revenue receipts was declining.

The maturity profile of State debt as given in **Table 1.17** indicates that the State Government will have to repay 12 *per cent* of its debt between one and three years, 17 *per cent* between three and five years, 17 *per cent* between five and seven years and 49 *per cent* after seven years, for which the Government will have to improve its debt sustainability to generate funds for repayment of loans in the coming years.

1.9 Fiscal imbalances

Three key fiscal parameters i.e. revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its resources and commitments. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under HFRBM Act/Rules for the financial year 2008-09.

1.9.1 *Trends of deficits*

Chart 1.12 present the trends in deficit indicators over the period 2004-09.

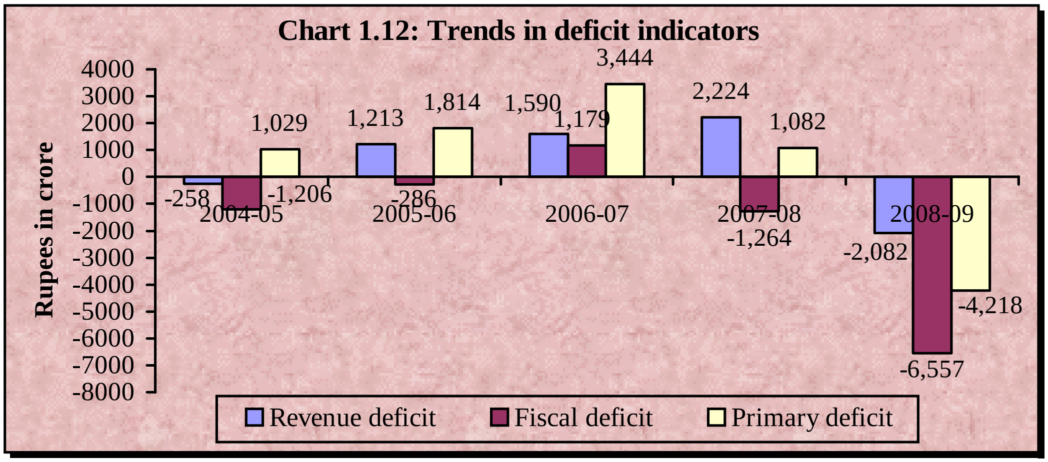


Table 1.18: Trends in deficit indicators over the period 2004-09

Year	2004-05	2005-06	2006-07	2007-08	2008-09
RD/GSDP	(-)0.003	0.011	0.012	0.015	(-)0.012
FD/GSDP	(-)0.013	(-)0.003	0.009	(-)0.008	(-)0.036
PD/GSDP	0.011	0.017	0.026	0.007	(-)0.023

The revenue deficit, which was to be brought down to zero by 2008-09, as per the HFRBM, experienced a consistent improvement in terms of increasing the surplus during the period 2005-08. However, the surplus turned into a deficit of Rs 2,082 crore during 2008-09 due to a decrease of Rs 1,299 crore (seven *per cent*) in revenue receipts and an increase of Rs 3,007 crore (17 *per cent*) in revenue expenditure over the previous year. Turning of revenue surplus of Rs 2,224 crore in 2007-08 into revenue deficit of Rs 2,082 crore in 2008-09 plus increase in capital expenditure (Rs 1,076 crore) led to increase in fiscal deficit of Rs 5,293 crore from Rs 1,264 crore in 2007-08 to Rs 6,557 crore in 2008-09.

There was a primary surplus[12] during the period 2004-08. However, a sharp increase in the fiscal deficit turned the primary surplus of Rs 1,082 crore in 2007-08 into primary deficit of Rs 4,218 crore in 2008-09. The revenue deficit and fiscal deficit were more than the target of zero and Rs 2,150 crore respectively, fixed for the year 2008-09 in the FCP.

The percentage ratio of revenue deficit and primary deficit had shown surpluses upto 2007-08 but had turned into a deficit during 2008-09. Turning of revenue surplus and primary surplus into deficit and increase in fiscal deficit by 419 *per cent* indicates the deterioration in the fiscal position of the State during 2008-09.

[12] Primary deficit, defined as the fiscal deficit net of interest payments, indicates the extent of deficit which is an outcome of the fiscal transactions of the State during the course of the year. When this is a positive figure, it is a primary surplus.

1.9.2 Components of Fiscal Deficit and its Financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.19.**

Table 1.19: Components of fiscal deficit and its financing pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of fiscal deficit		(-)1,206	(-)286	(+)1,179	(-)1,264	(-)6,557
1	Revenue deficit(-)/surplus(+)	(-)258	(+)1,213	(+)1,590	(+)2,224	(-)2,082
2	Net capital expenditure	(-)897	(-)1,612	(-)2,428	(-)3,416	(-)4,495
3	Net loans and advances	(-)51	(+)113	(+)2,016	(-)72	20
Financing pattern of fiscal deficit						
1	Market Borrowing	928.89	386.94	(-)147.40	(-)253.73	2,504.54
2	Loans from GOI	(-)1,411.59	(-)70.36	(-)90.24	(-)44.98	(-)47.46
3	Special securities issued to National Small Savings Fund	2,091.62	1,860.97	1,099.05	50.56	(-)79.73
4	Loans from financial institutions	(-)148.67	63.70	36.68	250.75	218.88
5	Small Savings Provident Funds etc.	284.23	354.75	364.80	299.32	352.38
6	Reserve Funds	74.01	14.12	(-)48.32	15.23	(-)4.81
7	Deposits and advances	242.88	158.02	377.70	184.72	216.62
8	Suspense and Miscellaneous	(-)665.66	(-)2,745.49	(-)2,496.50	21.69	3,546.38
9	Remittances	(-)14.57	43.62	(-)15.63	14.28	(-)26.63
10	Over all surplus (-) deficit (+)	1,381.14	66.27	(-)919.86	537.84	6,680.17
11	Increase (-) decrease (+) in cash balance	(-)175.16	219.39	(-)258.90	(+)726.03	(-)122.37
12	Gross Fiscal Deficit	1,206	286	(-)1179	1,264	6,557*

* Rounded to lower side.

Fiscal deficit which represents the borrowings of the Government and its resource gap increased from Rs 1,264 crore in 2007-08 to Rs 6,557 crore in 2008-09. The increase in fiscal deficit was due to shifting of its components by turning the revenue surplus of Rs 2,224 crore in 2007-08 to deficit of Rs 2,082 crore in 2008-09, increase in net capital expenditure by Rs 4,495 crore and loans and advances from (-) Rs 72 crore in 2007-08 to Rs 20 crore during 2008-09. The financing pattern of fiscal deficit shows that there was increase in market borrowings (Rs 2,504.54 crore), loans from financial institutions (Rs 218.88 crore), small savings, Provident funds, etc. (Rs 352.38 crore) and deposits and advances (Rs 3,546.38 crore) which resulted in increase in the fiscal deficit. As per HFRBM norm, the fiscal deficit was to be kept below 3.50 *per cent* of the GSDP but was 3.63 *per cent* of the GSDP during 2008-09.

1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.20**) would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.20: Primary deficit / surplus–bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary[13] revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/ surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8 (2-6)**
2004-05	11,306	9,172	897	208	10,277	2,134	1,029
2005-06	14,143	10,540	1,612	177	12,329	3,603	1,814
2006-07	20,153	14,096	2,428	185	16,709	6,057	3,444
2007-08	19,975	15,181	3,426	286	18,893	4,794	1,082
2008-09	18,811	18,195	4,502	332	23,029	616	**(-)** 4,218

The State Government had a primary revenue surplus during 2004-05 to 2008-09 although it decreased from Rs 6,057 crore in 2006-07 to Rs 616 crore in 2008-09 due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from Rs 10,277 crore in 2004-05 to Rs 23,029 crore in 2008-09. In other words, non-debt receipts were not only enough to meet the primary expenditure requirements in the revenue account but some revenue receipts were also used to meet the expenditure under the capital account. However, the State experienced a primary deficit during 2008-09, which indicates that borrowed funds were utilised to cover the primary expenditure.

1.9.4 State's own revenue and deficit correction

It is worthwhile to observe the extent to which deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the corrections in deficit indicators. **Table 1.21** presents the changes in revenue receipts of the State and corrections of the deficits during the last three years.

Table 1.21: Changes in Revenue Receipts and corrections of Deficit

(*Per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			Budget estimates	Actuals
Revenue Receipts (a to d)	13.80	12.90	12.02	10.22
a. State's own tax revenue	8.40	7.59	7.92	6.46
b. State's own non-tax revenue	3.53	3.33	2.24	1.79
c. State's share in central taxes and duties	1.00	1.07	0.98	0.95
d. Grants-in-aid	0.87	0.91	0.88	1.02
Revenue expenditure	12.58	11.45	11.24	11.38
Revenue deficit(-)/surplus(+)	(+)1.22	(+)1.45	(+)0.78	**(-)**1.15
Fiscal deficit(-)/surplus(+)	(+)0.91	**(-)**0.83	**(-)**1.12	**(-)**3.63

The percentage ratio of revenue receipts to GSDP showed declining trends as the

[13] Primary revenue expenditure means revenue expenditure excluding interest payments.

percentage decreased from 13.80 in 2006-07 to 10.22 in 2008-09, mainly due to decrease in the States' own tax revenue from 8.40 in 2006-07 to 6.46 in 2008-09 and non-tax revenue from 3.53 in 2006-07 to 1.79 in 2008-09. Thus, efforts of the State to improve its own source for durability of deficit corrections were not sufficient and the State had to depend on borrowed funds. The percentage of revenue expenditure to GSDP also declined from 12.58 in 2006-07 to 11.38 in 2008-09. The revenue deficit, the percentage of which against the GSDP was as surplus in 2006-07 has turned in deficit and also the fiscal deficit which was also in surplus (+) 0.91 in 2006-07 has also turned into deficit (-) 3.63 in 2008-09. The State also did not achieve its budget projections as detailed above.

1.10 Conclusion

Pattern of Revenue and expenditure: Revenue receipts decreased by seven *per cent* during the year over the previous year due to decrease in non-tax revenue by 36 *per cent*. Tax revenue for 2008-09 fell short by nine *per cent* as compared to projections made by TFC, 18 *per cent* as compared to MTFPS projection and four *per cent* of the FCP projection. However, the non-tax revenue was higher by 58 *per cent* than the TFC projection and by 50 *per cent* than the FCP projection. It was lower by 19 *per cent* as compared to the MTFPS projection during the year.

Revenue expenditure, which constituted 81 *per cent* of the total expenditure during the year, increased by 17 *per cent* over that of previous year. Its NPRE component at Rs 16,616 crore was higher by 59 *per cent* than the projection of TFC for the State (Rs 10,445 crore) by 15 *per cent* than the State's projection in its FCP (Rs 14,400 crore) and by three *per cent* of the projection of MTFPS. Within the Non-Plan revenue expenditure, four components i.e. salary and wages, pension liabilities, interest payments and subsidies constituted about 82 *per cent* during 2008-09. Moreover, 94 *per cent* (Rs 2,997 crore) of total subsidies (Rs 3,190 crore) were for the energy sector and were more than 1.79 times the State's own projection of Rs 1,670 crore in the Fiscal Correction Path for 2008-09.

Capital expenditure which constituted 18 *per cent* of the total expenditure also increased during 2008-09 by 31 *per cent* over 2007-08. A major proportion (80 *per cent*) of the incremental capital expenditure was in the form of investment in equity shares of various power corporations.

Financial assistance to local bodies (Rs 876.61 crore) was 24 times the projection of TFC (Rs 36.43 crore).

Return to fiscal correction: Haryana is one of the early States to have passed the Fiscal Responsibility and Budget Management Act. The fiscal position of the State, viewed in terms of the trends in fiscal parameters revenue, fiscal and primary deficit/surplus indicated a downward trend in 2008-09 compared to the previous year as revenue and primary surplus turned into deficit of Rs 2,082 crore and Rs 4,218 crore respectively. Fiscal deficit increased from Rs 1,264 crore in 2007-08 to Rs 6,557 crore in 2008-09. The slippage in 2008-09 in achieving the deficit targets could be attributed largely to the slump in the economy (which impacted revenue receipts) as well as the Sixth Pay Commission Award (which increased committed expenditure).

Debt sustainability: As per the HFRBM Act, total debt including contingent liabilities should not exceed 28 *per cent* of the estimated GSDP for the year. Total liability including guarantees during 2008-09 at Rs 36,853 crore stood at 20 *per cent* of the GSDP, which was well within the limit of HFRBM Act but was higher than that projected in the MTFPS (Rs 35,005 crore) for 2008-09. Re-emergence of revenue deficit after three years indicates that some portion of high cost borrowings are being used by the State Government for meeting its current expenditure.

Review of Government investments: The average return on the Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.9 to 0.18 *per cent* in the past five years while the Government paid an average interest of 7.43 to 9.20 *per cent* on this investment (Para 1.6.3).

Incomplete projects: Twenty nine projects, which were scheduled for completion between April 2007 and March 2009, were still lying incomplete. Time overruns of incomplete projects (para 1.6.2) will have to be reduced so that people of Haryana benefit from these sunk costs.

Oversight of funds transferred directly from the GOI to the State implementing agencies: GOI directly transferred Rs 1,022.44 crore to State implementing agencies during the year, which was an increase of Rs 162.89 crore (19 *per cent*) over the previous year. As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship and other important schemes which are being implemented by State implementing agencies but are being funded directly by GOI.

1.11 Recommendations

- The State has a reasonable prospect of achieving the targets set out in the FRBM Act of 2005 provided efforts are made to increase tax compliance, reduce tax administration costs, collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the Act.

- Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met fully from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit as soon as possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

- It would be advisable for the State Government to ensure better value for money in investments as otherwise, high cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification on why high cost borrowings should be channeled there. It would also be prudent to review the working of State public sector undertakings which are incurring huge losses (Para 1.6.3) and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down the sick units by disinvesting their equity

- A system has to be put in place to ensure proper accounting of GOI funds that are transferred directly to the State implementing agencies and the updated information should be validated by the State Government as well as the Accountant General.